

Bank's Participation in SME Financing: Obstacles to Small Enterprises in Bangladesh and its Remedy

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Abstract— *The economic and social magnitude of the Small and Medium Enterprise (SME) segment at the present time is well approved in educational and procedure journalism. SMEs play a very momentous role in the economy in terms of economic augmentation, employment manufacture, entrepreneur improvement, and export take-home pay. Small enterprises lack access to finance due to their possess constrictions as well as the financial institutions' observation of high threat and expensive expenditure. Ensure access to various financial offers for small and medium enterprises (SME) critical to accelerating inclusive financial growth and achieving Bangladesh's goal of becoming a middle-income country by 2024. SMEs contribute about 50 percent of the country's industrial output, which is the lion's share of production, and employ about 80 percent more industrial manpower. They are financially limited, with one The fiscal gap is estimated at 20 percent of GDP. This paper challenges to find out the problems met by small enterprises in getting mortgages from banks in Bangladesh and the major troubles faced by banks while financing small enterprises. For accumulating primary data from the small businesses, three hundred forty-one (341) small enterprises were conference through the questionnaire. Investigation results show that 65.39% of enterprises acknowledged credits from banks, while 34.61% of enterprises did not take delivery of any credit. Small enterprises express more than a few troubles in acquiring credit from banks. On the other hand, 55 special categories of banks are conferences from side to side the opinion poll. Banks cited different troubles connected to small enterprise financing of which non-accessibility of obligatory certification, deficiency of good record of contact, bad reimbursement narration, lack of financial aptitude, being short of safekeeping, and undertaking are very common. Foundation the study findings, a set of strategy proposals have been originated.*

Keywords— *Small Enterprises, Access to Finance Problems, Commercial Banks, SME Loan Disbursement, Impact SME Financing COVID-19.*

Definition of Terms: *SEs— Small-sized enterprises (SEs) are non-subsidiary, self-regulating corporations that employ a positive number of employees.*

JICA—Japan International Cooperation Agency

GDP— the gross domestic product (GDP) is the total of all value added created in an economy.

RRP— Rural Roads Improvement Project

I. INTRODUCTION

The economic and social importance of small enterprises (SE) is well acknowledged in different academic and policy literature. In provisions of involvement toward sustainable economic enlargement, employment formation, development of entrepreneurs, and export pay envelope, SEs play a very important role in an emergent economy like Bangladesh.

Bangladesh's economy has turned around in the situation of tackling the world's coronavirus. Economy The contribution of the industrial sector to GDP is gradually increasing in Bangladesh. According to Ayyagari et al., (2003) in their cantankerous country learning shows that SMEs explanation for over 51 percent of GDP and 57 percent of employment in the high-income country while the analogous figures for low-income countries are only 16 and 18 percent respectively. According to ng to the BBS, the contribution of the broader industrial sector to GDP is estimated at 34.99% in FY 2020-21, up from 34.78% in FY 2019-20. In fact, the government has taken continuous measures for the development and prosperity of all industries in the country's sectors such as manufacturing and energy industries for energy security, agriculture, and forestry, mining and processing industries, tourism and service industries, construction industries, and ICT based industries. So that the pace of industrialization is accelerated the government of the country has announced 'National Industrial Policy-2016 announced'. The Government of Bangladesh has already taken the initiative and will continue its efforts to achieve this goal by providing other ancillary assistance to banks and other financial institutions. As a result, the amount of debt in the industry is also increasing, both in terms of distribution and recovery. In response to the ongoing COVID-19 epidemic, the government has already announced a number of financial and incentive packages, including disbursements, to small and medium enterprises, including short-term working capital facilities at low-interest rates, and damaged cottage industries. National Financial Inclusion Strategy - Bangladesh (NFIS-B) and SME Policy Launched Policy Speed Efforts are underway to overcome the limitations of existing SME financing. Emergency policy formulation and regulatory delivery activities and demand-side measures need to be taken to address these and other policies. Access to SME funding is limited, especially by women-led and enterprise SMEs. If successful, such interventions can reveal the potential of both women and men in the industry, the national economic outlook will surely turn around and the amount of entrepreneurship will increase and sustainable contributions will be developed. SMEs contribute 25% to our GDP but are likely to contribute more next generation, but much less due to the epidemic situation. In the peer economies far ahead of us-Vietnam, Sri Lanka, and Cambodia the SME contributes 40%, 52%, and 58% to GDP, respectively. The Covid-19 epidemic has spread to all walks of life and business, with the worst-hit already being the neglected SMEs. Due to which the SME situation is very bad. Economic

instability has exacerbated existing problems such as lack of access to money, poor market connectivity, absence of skilled workers, lacking export markets, and so on.

According to the Asian Development Bank (ADB), most SMEs in Bangladesh account for 70% to 80% of the non-agricultural sector and several of employment. This is a major threat to the growth of our economy. Although 40% of production output is from SMEs, this is the vast benefit of SME standards. At present, there are more than 6 million SMEs institutes and micro-enterprises in Bangladesh and they are working tirelessly day and night to improve the lives of the people. (RRP Sector Assessment, ADB). In advanced economies, SMEs consist of more than 98% of the total business; contribute more than 65% of total employment and more than 50% to Gross Domestic Product (GDP), and also constitute 95% of registered firms (Daily FT, 2016). SEs use local skilled and unskilled laborers to develop different kinds of products and services to fulfill local needs mainly using indigenous resources. They are frequently the employment concentrated businesses and in many luggage are talented to cover small market segments that are not enclosed by the larger businesses. Small businesses have become very important and popular in terms of geographical location and for the inclusion of women entrepreneurs in our country. Bangladesh's economy is differentiated by high inhabitants, low per capita income, high level of unemployment and underemployment, mass poverty, and high-income inequality. Furthermore, among all the banks, most of them are financed under the command of the central bank. Thus it is documented that SE divisions in developing economies are underserved, particularly in terms of finance. The very common challenges that SEs normally countenance in most of the developing countries include troubles related to admittance to finance in the formal financial segment, some institutional, administrative, and legal barricades, etc.

II. OBJECTIVES OF THE STUDY

This paper scrutinizes the present circumstances of the troubles associated with small enterprises financing which are acknowledged by equally the small entrepreneurs and the commercial banks in service in Bangladesh. On the basis of the above background, the explicit purpose of the study is to:

- Recognize the troubles come across by the small enterprises in receiving advances from the banks in Bangladesh.
- Discover out the troubles facade by banks in financing small enterprises.
- Formulate strategy proposals in addressing the challenges of small enterprise financing.

III. LITERATURE REVIEW

Recognizing troubles interrelated to small enterprise financing is a much-debated issue. Special literature provides a deeper approach to the troubles of the small enterprises and the actions of the financial establishments (FIs) in managing the troubles. Some learning (EBRD 2004; Hossain 1998; PECC 2003) exposed that right of entry to credit is one of the most important impediments for SEs mainly due to the inadequately industrial banking segments in many of the improving

economies. Thus, this financing dilemma affects the potentiality for future enlargement through encumbering their ordinary business procedure. In their study Beck, Demirgüç-Kunt, and Maksimovic (2005) found that lack of right of entry to peripheral finance is a key impediment to firm enlargement, particularly for SEs. Using firm-level survey data Schiffer and Weder (2001); Beck, Demirgüç-Kunt, and Maksimovic (2005); and Beck, Demirgüç-Kunt, Laeven, and Maksimovic (2006) have shown that not only entrance to finance and the cost of credit are greater hindrances for SMEs than huge firms, but also these factors are restricting for their presentation more than those of the gigantic firms.

A small entrepreneur features numerous obscurities in achieving finance from the formal segment. Haque and Mahmud (2003) expose that, high coupon rate; guarantee prerequisite, and lack of proficiency and position of bankers are among the most momentous troubles for small entrepreneurs in availing of finance from the formal financial establishment. Quader and Abdullah (2008) ranked high providing rate and security requirements as the most momentous financing crisis for the SEs. On the other hand, financial associations also encounter a number of troubles while financing small enterprises. A RAM Consultancy Services (2005) report exposed that security necessities, feeble acknowledgment skills, and practices, burdensome loan processing, and certification were the major supply-side troubles in most of the Asian countries purposely in the ASEAN countries for financing SEs. In accumulation, Beck, Kunt & Peria (2008) exposed that banks in improving countries are less exposed to SEs, tend to make available a less important distribution of speculation loans, and charge higher fees and interest rates to SEs qualified to banks in developed countries.

Demirgüç-Kunt and Maksimovic (1998); Beck, Demirgüç-Kunt, and Maksimovic (2005), and Beck, Demirgüç-Kunt, Laeven, and Maksimovic (2006) demonstrated that approximately the world familiarity and small superiority balance sheets, lack of quality information and lack of sufficient guarantees stand out as small enterprises related aspects that banks distinguish as an obstruction in serving this sector. Torre and others (2008) showed that informality and low-quality balance sheets in Argentina, lack of quality information in Chile, and lack of sufficient guarantees in together countries are the SE-specific troubles for which banks are unwilling to provide them. Correspondingly, Stephanou and Rodriguez (2008) pointed out some troubles related to the SEs as informality, unavailability, and unreliability of financial statements, the low administrative aptitude of owners, their family-owned nature, and credit advantage. RAM Consultant (2005) describes that require of information about the SEs to the lending institutes is also an enormous dilemma to make certain contact to finance. Along with the finance-related troubles, there are some non-financial problems like managerial capability, compliance to pay, lack of motivation to grow, lack of using money professionally, etc. are connected with the small businesses.

IV. DATA COLLECTION & METHODOLOGY

The study has been demeanors fundamentals on mutually primary and secondary data. To accumulate primary data, two situates of the survey were residential; one for the Small Enterprises and the other one for the banks. For gathering the information from the small enterprises, five districts 4 have been chosen objectively on the foundation of the attentiveness of small enterprises mentioned in the “SME Credit strategies and Programme 2019” by Bangladesh Bank (central bank of Bangladesh). Three hundred forty-one (341) small enterprises were conference through the questionnaires and of the 70 (20.53%) were from industrialized, 207 (60.70%) were from employment, and 64 (18.77%) were from the service sector. While choosing customers for the interview and using purposive examples, numerous points were kept in intelligence like i) customers were elected from the area where individual sample banks were positioned to match the customers' estimation; ii) more prominence was prearranged to Dhaka and four contiguous districts; iii) both the borrower and non-borrower SEs were elected to comply with the study purposes. Nevertheless, the study does not cover the SEs in service in rustic areas and highlights Dhaka and four of its neighboring districts.

For gathering the information of various banks, a purposive sample questionnaire was performed through a survey on 55 banks comprising of state-owned commercial banks (SOCB) 6, private commercial banks (PCB) 40, foreign commercial banks(FCB) 9, operating in Bangladesh. While assigning banks for the interview, priority was provided to several sectors of banks remembered above and those who are largely encompassed with small enterprise financing. Moreover, both

the submitted and opposed loan recommendations of some part obtain the theoretical background, and pertinent websites were visited to accumulate secondary information.

V. SME FINANCING IN BANGLADESH: BANK PARTICIPATION “CURRENT RANK OF BANKS”

In Bangladesh, two descriptions prevail respecting SEs; one is provided in „ SME Credit Policies & Programmes 2019“ (collected) published by Bangladesh Bank (BB) and the other is in the “Industrial Policy 2016” published by the Ministry of Industry(MI). Previously Bangladesh Bank has published a circular (SMESPD, Circular No-1, 19 June 2020) to determine the size of the small and medium enterprises 9 in order to reconcile the explanation with the industrial policy. It is imperative to the memorandum that industrial policy does not envelop the description for trading suspensions.

According to the definition, all commercial banks define their SE portfolio

Table 1 highlights the contemporary position of the SME marvelous loan as a percentage of the total loan given by the banks and non-bank financial institutions in service in Bangladesh. Making an allowance for the banking sector, in the year 2020 the percentage of SME due loans to total loans by SOCBs “s was 7.25% which reduces around 38.15% in contrasted to the year 2019; PCBs “s was 99.70% in the year 2018 and increased by 43.20% from the year 2017; and PCB“s was 24.20%, which decreased by 35.66%. Although the percentage of SME loans to total loans stood 91.80% in the year 2019 from 22.10% in the year 2017, it is evident that the PCBs“ performance was not good at all among the other groups in the banking sector while financing SMEs.

TABLE 1. Banks and NBFIs from 2016 to 2020 (In million BDT)

Banks	2016	2017	2018	2019	2020	Total
SOCB (6)	2013.7	2884.4	1815.2	1219.44	1908.91	9841.65
PCB(40)	24,597.40	30578.50	65,904.30`	78,316.90	69,668.75	269,065.85
FCB(9)	768.8	551.3	192.6	19,213.20	34,332.69	55,058.59
Total Banks	27,379.90	34,014.20	67,912.10	98,749.54	105,910.35	333,966.09
% Year on year	3.60%	24.20%	99.70%	45.40%	7.25%	-
NBFIs	5948.00	4632.00	3389.60	6499.87	5295.20	-
% Year on year	-28.50%	-22.10%	-26.80%	91.80%	-18.50%	-
Banks & NBFIs	33,327.90	38,646.20	71,301.70	105,249.40	111,205.55	-

Note. SOCB- State-owned Commercial Bank, PCB- Private Commercial Bank, FCB- Foreign Commercial Bank. Source: Authors“ calculation, Data: SME & Special Programmes Department, Bangladesh Bank.

TABLE 2. Segregation of SME Loan in Small and Medium Enterprise

Year	2017		2018		2019	
	% of Total Disbursement		% of Total Disbursement		% of Total Disbursement	
Banks/ NBFIs	Small	Medium	Small	Medium	Small	Medium
SOB	57.10	42.90	29.12	70.88	46.87	53.13
SB	46.44	53.56	50.44	49.56	51.24	48.76
FB	47.17	52.83	54.28	45.72	56.01	45.99
PCB	46.96	53.04	51.10	48.90	41.86	58.14
Total Banks	47.75	52.25	53.89	46.11	51.53	48.47
NBFIs	60.22	39.78	51.18	48.82	51.57	48.43
Total Banks & NBFIs	48.13	51.87	51.18	48.82	68.02	31.98

Source: Authors“ calculation, Data: SME & Special Programs Department, Bangladesh Bank.

Table 2 illustrate the separation of SME loan into small and medium enterprises on the origin of the total SME loans disbursed by the banks and NBFIs in Bangladesh. The comprehensive disbursement in small enterprises by all banks

was 47.75% and by NBFIs was 60.22% in 2017. Whereas, in 2019 the disbursement in the small enterprise sector stood at 51.57% for all banks and 68.02% for the NBFIs. The full amount disbursement in the year 2019 by the financial segment

in small enterprises was 51.93%. From the table, it is evident that banks are lagging behind the Non-bank financial segment in financing the small enterprises contrasted to medium enterprises. It is also found that the total banks and NBFIs segment progressively enhance their disbursement of loans to small enterprises contrasted to medium enterprises from 2017 to 2019.

Table 3 highlights the segment-wise disbursement of SME loans by the banks and NBFIs in Bangladesh. The disbursement of SME loans was categorized as the service sector, trading sector, and manufacturing sector. Here, it is found that the banking sector disbursed SME loans largely in the trading sector and least in the service sector, while NBFIs maintained a more or less balanced approach compared to the banking sector in disbursing their SME loan. Banks and NBFIs have come

forward for financing and the development of the SMEs sector under close monitoring and supervision of the Bangladesh Bank. Total net outstanding loans and advances in the SME sector at the end of September 2020 is Tk. 1, 90,969.83 crores. In the year 2020 (up to September), Banks and NBFIs altogether have disbursed an amount of Tk. 1, 04,515.17 crores against 5, 17,250 SMEs. On the other hand, 43,636 women-led SME enterprises received financing of Tk. 3,553.47 crore during the same time period. A self-determined year-wise lending target (calendar year basis) in the SMEs sector for banks and NBFIs was first introduced in 2010. The success in SME loan disbursement is considered as a yardstick for the approval of opening new branches and a criterion to determine CAMELS ratings of banks. Table 3 reveals the disbursement of category-wise SME credit from the year 2010 to 2020.

TABLE 3. Sector-wise Disbursement of SME Loan

Period	Target	Actual Disbursement				Women Ent.	Achievement (%)
		Trading	Manufacturing	Service	Total		
2010	38858.12	35040.53	15147.72	3355.68	53543.93	1804.98	138
2011	56940.13	34382.64	15805.95	3530.85	53719.44	2048.45	95
2012	59012.78	44225.19	21897.33	3630.90	69753.42	2224.01	118
2013	74186.87	56703.72	24016.64	4602.89	85323.25	3351.17	115
2014	89030.95	62767.18	30246.20	7896.77	100910.15	3938.75	113
2015	104586.49	73551.78	30462.02	11856.68	115870.48	4226.99	112
2016	113503.43	90547.57	35168.63	16219.19	141935.39	5345.66	125
2017	133853.59	96934.79	42334.87	22507.66	161777.32	4772.99	121
2018	161031.89	66936.21	55739.61	36834.25	159510.07	5517.09	99.05
2019	176902.00	72522.37	58715.31	36723.99	167970.67	6108.99	94.95
2020	229153.21	75225.14	73832.16	41912.53	190969.83	6938.70	83.34

Source: Bangladesh Bank. *Up to September 2020. Target-based lending to cottage, micro, small and medium enterprises has been initiated since 2010. Until 2019, the lending target calculation process was disbursement-based. From 2020, the lending target is being determined using Net Outstanding based calculation process which is initiated by SMESPD Circular No. 02: dated September 05, 2019.

VI. FINDINGS AND ANALYSIS OF SURVEY RESULTS

To comply with the objectives, the study tried to identify small enterprises' access to credit in banks, problems faced both by them and banks through the questionnaire survey. The following sub-sections furnish the survey results with the relevant analysis:

6.1 Small Enterprises' Access to Credit in Banks

In this study, a sample survey was conducted on 341 small enterprises consisting of manufacturing, trading, and service concerns. The survey result (Table-4) showed that 65.39% of enterprises received loans from banks, while 34.61% of enterprises did not receive any loans. Out of those enterprises who received the loan, 54.34% of enterprises received the full amount they had applied for and the other 45.66% enterprises

received a part of their total requirement. Among the enterprises who received loans from banks, 72.61% enterprises were satisfied in terms of loan covenants and bank services.

In comparison to the previous study (Mamun et. al., 2012), the current study finds greater access to finance in banks. Based on a sample survey for 509 small enterprises their survey result showed that 60.31% of enterprises received loans from banks and other financial institutions, while 39.69% of enterprises did not receive any loan from formal financial institutions. But current study finds that 65.39% of small enterprises got access and 34.61% did not get their access. The reason behind the improvement of the access may be the fact that this study focuses only on the banks as the formal financial sector and the survey was conducted on Dhaka district and some adjacent areas of the same district.

TABLE 4. Access to Credit in Banks

Parameters	Number	Access	No Access	Did not apply	Applied but Denied
Total sample	341 (100%)	223 (65.39%)	118 (34.61%)	73 (61.86%)	45 (38.14%)
Manufacturing	70 (20.53%)	59 (26.45%)	11 (9.32%)	4 (5.48%)	7 (63.64%)
Trading	207 (60.70%)	143 (64.12%)	64 (54.23%)	40 (54.79%)	24 (70.32%)
Service	64 (18.77%)	21 (9.42%)	43 (36.44%)	29 (39.73%)	14 (48.84%)

Source: Authors' calculation based on survey questionnaire

On the other hand, Choudhury & Raihan (2000) conducted a survey on SME access to credit under Structural Adjustment Participatory Review Initiative (SAPRI) study where they

found that "the access to formal credit is not available at all to 50.53 percent of the stakeholders. Only 35.79 percent of SME stakeholders enjoy unrestricted access to formal credit. The rest

(13.68 percent) of them have restricted access to the formal credit”.

6.2 Main Hindrance Faced by Small Enterprises (SE)

Small and Medium Enterprises (SMEs) are a type of industry that is the backbone of Bangladesh's economic development: they account for more than 90 percent of all businesses that provide three different jobs in the country. So, the government is doing a lot to help the country sustain this economic success and accelerate the growth of this sector in the interest of sustainability. Nevertheless, SMEs face a variety of challenges, ranging from product marketing to access to finance, lack of capital and adequate manpower, lack of source of many, limited training facilities, weak sales channels strategic and lower levels of the financial enclosure, according to a fast survey conducted by the *Daily Star (September 2021)*, Some of the factor that hinders the growth of SMEs. Most of the respondents requested a mutual marketing platform for micro and SMEs through easy access to cash and loan funds. There is one such project which is officially regulated- Joyeeta- this project is reserved by the government only for women entrepreneurs. Ahmed Rashid Joy, Chief General Manager, IDLC Finance and Head, SME, said lending to SMEs increased to 19 percent of the total loan portfolio in March this year (2021) but was much lower than before, which is still ineffective. If we want to keep pace with the developed countries of the world and become a developed country, then our SME loan portfolio needs to be 40 percent or above.

SMEs in Bangladesh identified lack of funds as the main problem, with 55% of SMEs reporting it. Bribes are considered 21%, product ordering/marketing 28%, lack of knowledge 12%, and work licenses 8%, 8% with new technology and the main problems.

TABLE 5. Major Obstacles Cited by Small Entrepreneurs (Multiple Responses)

Sl.	Major Obstacle	Responses (%)
1	Lack of access of finance	55%
2	Highly Bribes	21%
3	Crisis of order/ marketing of product	28%
4	Lack of adequate knowledge	12%
5	Insufficient work or proper license for work	8%
6	Lack of new technology	8%
7	Malpractices of banks' officials	12.72

Source: Authors' calculation based on survey questionnaire

The survey results show that 63.84 % of the respondents opined that unwarranted safekeeping and assurance requisite is the genuine trouble for acquiring a loan from banks. According to the respondents, banks frequently recognize security in the form of real material goods, goods, or expensive assets rather than the balance of an inspection account, complete goods, assurances of another company or a bank, and safekeeping as a guarantee. In a few cases, it was found that some banks do not have any loan product which is collateral-free. As a result, the SEs pointed that excessive collateral requirements by the banks create a barrier for getting a loan from the banks in Bangladesh.

Small enterprises are in front of trouble in accumulating the credentials essential for loan dispensation. From the survey, it is found that 59.23% SEs claimed documentation as the

obstacle for accessing finance from the banks. For the period of the conference, some of the entrepreneurs point out that for the lack of some evidence (RS problems created by the surveyor, property-related documents, bank statements, business deed, rental agreement with the house owner, Tax Identification Number, and Value Added Tax registration certificate, surroundings clearance certificate, etc) they are not receiving finance from the banks. Moreover, the respondent claimed that they face a lot of problems while getting documents from different issuing authorities. For the period of the survey 47.36% SEs criticize that they are not receiving the loan in outstanding time outstanding to the long loan dispensation time of some banks. In SE financing, a small number of the commercial banks in Bangladesh have summary the loan processing time to one feeble or less than that. But still, most of the banks need more than 15 days to procedure a loan even it necessitates a month in some cases. But the enterprises' favorite loan processing time is 10.31 days. The study results showed that 34.81% SEs do not get credit amounts as they are compulsory. As a result, SEs faces obscurities in doing the business and escalating them towards the favorite level. This ensues in the case of the term loan as well as in working capital loans.

TABLE 6. Major Problems Faced by Banks in Financing Small Enterprises

Sl.	Main Hindrance	Responses (%)
1	Non availability of required documents	78.17
2	Absence of good transaction record with bank	71.62
3	Problems linked with business address	63.59
4	Bad repayment history	56.41
5	Lack of financial capacity	53.16
6	Inadequate net worth	47.82
7	Lack of security and guarantee	42.86
8	Minimum experience in business	36.33
9	Lack of managerial quality	34.21
10	Unstructured financial information	29.76

Source: Authors' calculation based on survey questionnaire

Banks do not provide money to small entrepreneurs if the bankers in the background of Bangladesh do not find the past relationship of the enterprises with the bank. The presence of a good transaction record provides a basis for bankers to get an excellent inspiration about a business cash-flow blueprint and which is essential for bankers from a credit risk perspective. Thus, a previous relationship with the bank is a prerequisite to getting money from a bank. Thus, the absence of banking relationships prevents enterprises from receiving formal funding, which is a big threat for small entrepreneurs. The 71.62% response supports that reducing it becomes a major problem to increase improved access to formal credit. Most of the small entrepreneurs in the urban areas of Bangladesh are doing business far away from their permanent address, i.e. due to the price of all kinds of things. Small businesses are easily accessible, which is why the financing of these entrepreneurs makes the banks risky towards fraud and for this dirty mind of theirs. 63.59% of respondents believe that they cannot provide credit to entrepreneurs due to addressing problems. Most entrepreneurs do not live in their own homes; they live in rented houses that are convenient for them to transfer so some bank

officers have to bear a lot of responsibility to find them. And for this reason, bankers are reluctant to lend to small enterprises.

6.3 An Assessment of the Impact of COVID-19 to the SMEs & Surveys

The coronavirus epidemic has caused massive changes in the economy, especially in the case of SME loans, creating various ways to affect both supply and demand. Which has become a big threat to the economy? In terms of supply, most companies reduce the supply of labor a lot because workers cannot come to work to take care of the sick or children or other dependents when schools, colleges are closed and people cannot move out. This lockdown and quarantine caused by the

epidemic further increase the measurement capacity of disease control and further distance cause everything to collapse. In addition, all kinds of parts and supply chains are disrupted as the factory is closed for a long time and eventually, there is a shortage of intermediate products.

The effects of the Covid-19 crisis are exacerbated by business surveys on SMEs, taking a deadly toll on small businesses and causing concern. Table presents the outcome of 29 SME surveys identified worldwide on the impact of COVID-19 on the SME sector. The table proves that more than half of SMEs have faced serious threats and losses in terms of revenue. One-third of SMEs fear being out of business without further support within 1 month, and up to 50% within three months.

TABLE 7. SME Surveys on the Impact of COVID-19

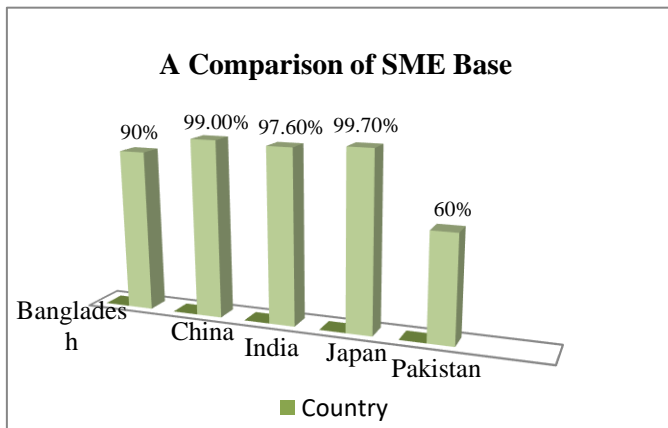
Date	Country	Impact on business	Expectations
10 Feb.	China	80% of SMEs have not started work yet	1/3 out of business in 1 month, 1/3 more in two months
25 Feb.	Finland	1/3 A negative or very negative effect is expected	n.a.
Early March	Italy	72% directly affected	n.a.
Early March	UK	63% see the crisis as a medium to high/severe threat to their business	n.a.
9 March	Germany.	50% expects a negative effect	n.a.
9 March	Japan	39% reported supply chain disturbance, 26% declined order and sales	n.a.
10 March	Poland	1/3 SMEs experience rising costs and declining sales	27% already encounter cash flow snags
11 March	USA	70% experience supply chain disruptions, 80% the impact of the crisis.	n.a.
12 March	UK	69% experience serious cash flow problems	1/3 fear being out of business in 1 month
13 March	USA	23% negatively affected, 36% expect to be	
16 March	Canada	50% drop in sales	25% expect not to survive longer than 1 month
16 March	Israel	55% experienced no impact yet, 1/3 planning lay-offs	n.a.
16 March	Greece	60% experience a marked decrease in sales.	n.a.
17 March	USA	50% negatively affected, 75% very concerned	n.a.
17-20 March	Korea	61% have been obstructed	42% anxiety being out of business in 3 months, 70% in six(6) months
18 March	Belgium	75% report declines in turnover	50% fear not to be able to pay costs in the short term
19 March	USA	96% have been affected	51% indicate not being able to endure three months
20 March	Hungary	60% expects a decline in sales	n.a.
20 March	Netherlands	50% of start-ups lost substantial revenue	50% expect to be out of business within 3 months
21 March	Japan	92% experience economic impact	n.a.
24 March	Canada	60% experience momentous impact	1/3 expect to be out of business in a month
31 March-- 6 April	Numerous Asian countries	30% of SMEs expect to lay off	50% of their staff. 50% of SMEs have a month cash capital or less
1 April	United Kingdom	n.a.	18% of firms could be out of business in one month
1 April	United States	n.a.	35% of small businesses out of business in three (3) months
3 April	Belgium	40% of companies see a drop-in revenue of 75% or more	1 in 10 companies likely to face bankruptcy
8 April	Netherlands	n.a.	85% of SMEs in the financial effort because of COVID 19 20% is at solemn risk
11 May	United States	81% of firms experience and expect the influence of pandemic in the next 12-16 months	n.a.

Source: Annex B

6.3 A Comparison of SME Base The main task of establishing the SME Loan Guarantee Scheme (CGS) is to implement access to finance projects for SMEs, formulate SME finance policies, and strengthen the powers of regulators and sectors to create a conducive environment for SMEs to expand access to finance. The SME Finance Policy of Bangladesh was the first to contribute to the implementation of this project, so effective steps should be taken to increase SME financing. Speakers at a global webinar highlighted the lack of readiness to undertake

digitalized operations, lack of technical skills, lack of adequate training and cash flow as well as liquidity crisis which has posed some new challenges to SMEs in the midst of the epidemic. The speakers further said that the situation of Small and Medium Enterprises (SMEs) during the epidemic could worsen and worsen; As such they may have existing challenges, namely lack of financial incentive package, lack of access to funds, many errors, and inconsistencies in policy norms and lack of skilled manpower. With this in mind, they said, Small and

Medium Practitioners (SMPs) accountants can play an important role in supporting SMEs through a variety of advisory support, including tax, credit, consolidation, and acquisition, plan implementation, proper structure, and business development policy. On the occasion of International SME / SMP Day 2021, they brought their views in a global webinar on 'Future Ready SMEs and SMPs: Vital for Sustainable Economy' organized by the Institute of Chartered Accountants of Bangladesh (ICAB). According to the presentation, SMEs are considered as an engine of economic growth in Bangladesh which is more than 90(%) percent of business enterprises. Conversely, it is 97.60(%) percent in India, 99(%) percent in China, 99.70(%) percent in Japan, and 60(%) percent in Pakistan. SMEs contribute 25(%) percent of Bangladesh's GDP, which is very lowest compared to other emerging economies. Bangladesh SMEs' contribution to GDP is 25%.



VII. POLICY RECOMMENDATION

The study conducted a primary survey both on small enterprises and banks to point out the problems faced by small enterprises while attaining finance from banks and the problems quoted by banks in financing SEs. The pedestal on the observations and findings, to decrease the problems of both the sides, we recommend the following:

- The high-interest rate has been pointed out as one of the major obstacles by the SEs and hinders their regular business enlargement particularly for lack of external finance. Although small enterprises claimed that the established interest rate is high but in comparison to the informal money lenders and their cost of funds the rate is not so high. Even though, banks may take several initiatives to decrease such rates by searching for low-cost funds. Therefore, Bangladesh Bank, Government, and other stakeholders should exaggerate their efforts (refinancing and pre-financing) to provide low-cost funds to the commercial banks.
- Banks may follow the Bangladesh Bank guidelines and instructions for the collateral-free loan in financing SEs. To reduce the unnecessary collateral requirements, banks can finance the SEs where the personal guarantee is strong and the project has good future prospects.

- Small enterprises must understand the documentation necessities of banks. To address the problems of receiving documents from different issuing authorities, the government and other appropriate authorities can ease the documents-obtaining procedure by ascertaining a dividing counter for the SE customers in different departments across the country.
- To make sure the accessibility of the loan is in due time, the relationship official should provide the prospective borrower a checklist in the first interface so that the borrower might clearly imagine all the loan requirements.
- To address the issue of bankers' unwillingness and abandonment in dealing with the SEs, the banker should have a good client relationship, positive and caring manner towards the small entrepreneurs. The bankers have to encourage the small entrepreneurs to develop victoriously. This relationship should be like a partnership.
- To eradicate the problem of Unstructured financial information, business owners should be optimistic to use proper bookkeeping records on their business transactions by educating them to be acquainted with the advantage of accounting and financial information, by giving them incentives such as tax holidays and easier access to bank loans, and by setting up simple SEs accounting standards.
- To address the issue of, lack of decision-making quality of the small entrepreneurs, the government, as well as the other stakeholders, can take competence building projects and communicate quality training to the small entrepreneurs. This may help the entrepreneurs to administer their businesses more resourcefully and become s everlasting.

VIII. CONCLUSION

Small enterprises are the major contributor to the GDP of Bangladesh. So ensuring access to formal credit is a matter of immense importance to achieve the targeted growth of GDP. But due to certain problems of the small enterprises derived from the basic characteristics of SEs, it has become difficult for the formal financial institutions to extend credit facilities to the SEs. The main problems are lack of proper paperwork and documents to prove everything, net worth is unlimited and collateral is high, structural financial information, etc. On the other hand, formal financial institutions also have limitations like long loan processing time, high-interest rates, reluctance to deal with small enterprises, etc. Thus, the adoption of the above recommendations may ensure better access to formal credit for the small enterprises and can contribute higher to the economic growth of the country. In this regard, "Refinancing project for the agro-based processing industry in rural areas"; "Refinancing Scheme for Small Enterprises"; "Refunding for new entrepreneurs in the cottage, micro, and small industries"; New entrepreneurs in the sectors of "agro-based industries", "small enterprises (including women-led SMEs)" and "cottage, micro, and small entrepreneurs"; Covid-19 Refinancing Schedule Project, JICA Supporting Financial Sector Project SME (FSPDSME) Fund Development, Urban Building Safety Project (UBSP) with JICA Assistance, Safety Establishment in Bangladeshi Readymade Garment and Environmental Improvement Program (SREPU) Has been activated.

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